

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

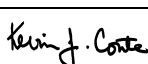
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

**Financial Report
with Supplemental Information
December 31, 2006**

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

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Plante & Moran, PLLC
Suite 500
2601 Cambridge Court
Auburn Hills, MI 48326
Tel: 248.375.7100
Fax: 248.375.7101
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
City of Warren Police and Fire Retirement
Health Benefits Plan and Trust

We have audited the accompanying basic financial statements of the City of Warren Police and Fire Retirement Health Benefits Plan and Trust (a component unit of the City of Warren, Michigan) as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the City of Warren Police and Fire Retirement Health Benefits Plan and Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Warren Police and Fire Retirement Health Benefits Plan and Trust as of December 31, 2006 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

June 11, 2007

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of two parts: (1) management's discussion and analysis (this section) and (2) basic financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

The table below shows key financial information in a condensed format for the current year:

	December 31	
	2006	2005
Total assets	\$ 20,036,408	\$ 18,562,451
Total liabilities	<u>3,757,702</u>	<u>3,819,276</u>
Assets held in trust for retiree health benefits	<u>\$ 16,278,706</u>	<u>\$ 14,743,175</u>
Net investment gain	\$ 1,308,508	\$ 23,447
Employer contributions	\$ 6,009,872	\$ 4,237,700
Postemployment health care expenditures and medicare reimbursements	\$ 6,468,425	\$ 6,819,017
Expenditures paid in excess of contributions	\$ 458,553	\$ 2,581,317
Ratio of benefits paid to contributions	1.08	1.61
General and administrative expenses	\$ 7,387	\$ 12,879
Net increase (decrease) in net assets held in trust	\$ 1,535,531	\$ (1,977,110)

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The City of Warren Police and Fire Retirement Health Benefits Plan and Trust (the "Plan and Trust") exists to pay postemployment health care and related costs. Expenses currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Investment Results

Funds are kept liquid in order to meet postemployment health care expenditures. Short-term money was deposited into a money market instrument yielding 5.21 percent. Seven certificates of deposit were purchased yielding 5.34 percent and 5.72 percent.

The board of trustees of the Plan and Trust hired an index manager for an asset allocation model of 60 percent equity index funds and 40 percent fixed income index funds. The managed index funds returned 13.53 percent for 2006.

Contacting the Plan and Trust's Management

This financial report is intended to provide our citizens, taxpayers, and investors with a general overview of the Plan and Trust's finances and to show the Plan and Trust's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Plan and Trust's office at One City Square - Suite 415, Warren, Michigan 48093-5287, or (586) 574-4568.

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Statement of Plan Net Assets December 31, 2006

Assets

Accrued interest and dividends receivable	\$ 115,808
Investments - Noncategorized:	
Short-term cash management funds	4,373
Mutual funds - Equities	12,599,393
Mutual funds - Fixed income	2,289,689
Certificates of deposit	<u>5,027,145</u>
Total investments	<u>19,920,600</u>
Total assets	20,036,408

Liabilities

Due to City of Warren - General Fund	3,751,516
Accounts payable	<u>6,186</u>
Total liabilities	<u>3,757,702</u>

Net Assets Held in Trust for Retiree Health Benefits	<u>\$ 16,278,706</u>
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City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Statement of Changes in Plan Net Assets Year Ended December 31, 2006

Additions

Interest and dividends	\$ 707,900
Net appreciation in fair values of investments	1,308,508
Less interest expenses	<u>(14,937)</u>
Net investment income	2,001,471
Contributions - Employer contributions	<u>6,009,872</u>
Total additions and investment income	8,011,343

Deductions

Retirees' health care	6,149,924
Medicare reimbursements	318,501
Administrative expenses	<u>7,387</u>
Total deductions	<u>6,475,812</u>

Net Increase

1,535,531

Net Assets Held in Trust for Retiree Health Benefits

Beginning of year	<u>14,743,175</u>
End of year	<u><u>\$ 16,278,706</u></u>

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Notes to Financial Statements December 31, 2006

Note 1 - Significant Accounting Policies

The City of Warren Police and Fire Retirement Health Benefits Plan and Trust (the "Plan and Trust"), an irrevocable trust, is the administrator of a single-employer public employees' health and benefits plan that covers substantially all of the police and fire retirees of the City of Warren, Michigan. The financial statements of the Plan and Trust are also included in the combined financial statements of the City of Warren (the "City") as a fiduciary fund. The Plan and Trust was set up as a VEBA trust fund.

The board of trustees is made up of five individuals. Two trustees are appointed by the mayor. The police employees and the fire employees each have their own elected trustees. The City treasurer is also required by City ordinance to be a member of the board.

Basis of Accounting - The Plan and Trust's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenue in the period in which they are earned. Insurance and other costs are recognized when due and payable in accordance with the terms of the Plan and Trust.

Method Used to Value Investments - Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price.

Note 2 - Plan Description

The Plan and Trust provides health benefits to plan members and their beneficiaries. The obligation to contribute to and maintain the Plan and Trust for these employees was established by City ordinance and negotiation with the police and fire collective bargaining units. At December 31, 2006, membership consisted of 399 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 380 current active employees.

Note 3 - Contributions

The funding policy provides for monthly employer contributions at the actuarially determined rate of 13.44 percent for the months January 2006 through June 2006 and 24.24 percent for the months of July 2006 through December 2006 that, expressed as percentages of monthly covered payroll, is intended to accumulate sufficient assets to pay health benefits when due.

Administrative costs of the plan are financed through investment earnings.

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Notes to Financial Statements December 31, 2006

Note 3 - Contributions (Continued)

Information regarding employer contributions as of December 31, 2003, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	5.0%
* Includes inflation at	5%
Health care increase assumption	5%

Note 4 - Deposits and Investments

Investments - The Plan and Trust is authorized by Michigan Public Act 485 of 1996 to invest in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances, mutual funds, investment pools that are composed of authorized investment vehicles, certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Plan and Trust's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Plan and Trust's deposits may not be returned to it. The Plan and Trust does not have a deposit policy for custodial credit risk. At year end, the Plan and Trust had certificates of deposit of \$5,027,145, of which \$100,000 was covered by federal depository insurance. The Plan and Trust believes that due to the dollar amounts of cash deposits and the limits of FDIC Insurance, it is impractical to insure all deposits. As a result, the Plan and Trust evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Notes to Financial Statements December 31, 2006

Note 4 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan and Trust has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment type - Rating</u>	<u>Fair Value</u>	<u>Rating Organization</u>
Index funds - BAA through AAA	\$ 2,289,689	Moody's

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan and Trust's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day or less maturity. At year end, the average maturity of the bond index funds (\$22,289,689) was 6.96 years.

Note 5 - Risk Management

The Plan and Trust's exposure to risks of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions.

Note 6 - Other Postemployment Benefits

The Governmental Accounting Standards Board has recently released Statement No. 43, *Financial Reporting for Postemployment Benefits*. The new pronouncement provides guidance for postemployment benefits plans in reporting the funding status of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will require disclosure of the actuarial accrued liability and the value of assets in the plan that are used to offset that liability. The new pronouncement is effective for the year ending December 31, 2007.